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Banking Automation BULLETIN

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The irony in LINK's scaling back of its ATM interchange fee reduction plan

Back in January, LINK, the UK cash machine network, announced plans to *"maintain and rebalance the UK's ATM network"* with a phased 20% reduction in ATM interchange fees, over four years, from the then average of 25 pence. It argued (or strictly speaking, a majority of its members argued) that the existing rates were leading to over-deployment of ATMs, especially in city centres. Conscious of its social responsibilities, LINK announced at the same time, a significant boost to its financial inclusion subsidy which increases interchange fees in areas identified as having poor cash access, and made a commitment that fees would not be reduced for free ATMs located more than one kilometre from the next free ATM.

The first of the proposed reductions came into force on 1st July, but just 15 days later, LINK announced that the third reduction due in 2020 has been cancelled, and the fourth, due in 2021 has been postponed – the second reduction in January 2019 is still due to go ahead.

The exact reasons for the change of heart have not yet been released, although the announcement referred to a higher than expected fall of 6% in ATM usage, as consumers turn to alternatives to cash. The inference from this is that lower usage will reduce the income for many ATM locations, effectively pushing up the cost per transaction as fixed ATM costs will be allocated across a smaller number of transactions. It is clearly harder to justify reducing interchange fees if costs are actually increasing. No reference was made to the public and media outcry that the original announcement generated, and it is not clear to what extent, if any, this played a part.

The irony – that only a few months ago LINK was concerned about over-provision of ATMs and has now been spooked by a fall in usage, and the implication that this could lead to under-provision – is hard to ignore.

To be fair to LINK, it always said that the interchange fee reductions would be regularly reviewed, but the current situation highlights the fine line that it treads and the challenge it faces in a rapidly evolving payments landscape. While this particular case is clearly UK specific, the same issues are being faced all around the world. LINK will not be the only ATM network to be caught out.

Dominic Hirsch, Editor

Editor Dominic Hirsch
Managing Editor Morten Jorgensen
Assistant Editor Tomomi Kimura
Contributors Jane Adams, Terry Appiasei, Emily Beeby, Beatriz Benito, Sam Blackwell, Alison Ebbage, Felix Kronabetter, Thomas Madden, William McGee
Subscriptions Manager Abigail Milne
Advertising Managers Amanda Hardy, Felix Kronabetter

For all editorial and advertising enquiries:

Telephone: +44 20 8831 7300 Fax: +44 20 8831 7301
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London TW1 2EF, United Kingdom

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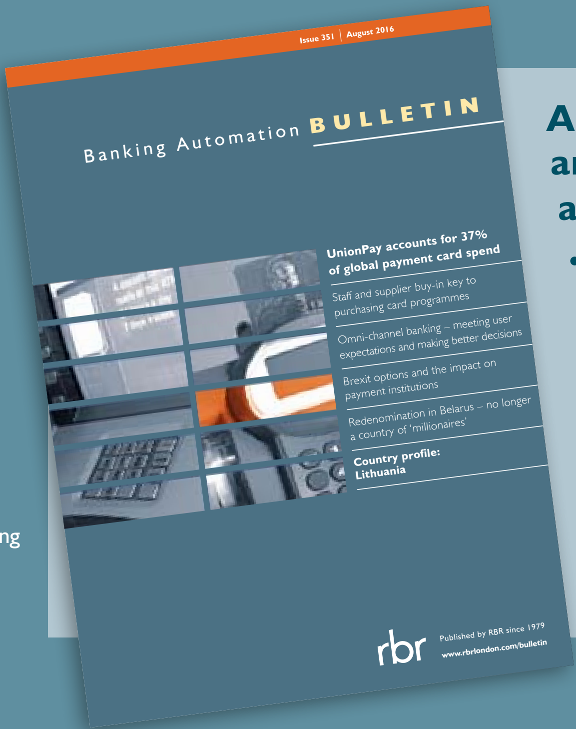

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